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SENATE BILL 345

45TH LEGISLATURE - STATE OF NEW MEXICO - SECOND SESSION, 2002

INTRODUCED BY

Leonard Lee Rawson

AN ACT

**RELATING TO OIL AND GAS TAXATION; AMENDING THE NATURAL GAS AND
CRUDE OIL PRODUCTION INCENTIVE ACT TO INCLUDE THE INSTALLATION
OF CERTAIN EQUIPMENT WITHIN THE DEFINITION OF "WELL WORKOVER
PROJECT".**

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF NEW MEXICO:

**Section 1. Section 7-29B-2 NMSA 1978 (being Laws 1995,
Chapter 15, Section 2, as amended by Laws 1999, Chapter 7,
Section 2 and also by Laws 1999, Chapter 256, Section 3) is
amended to read:**

**"7-29B-2. DEFINITIONS. --As used in the Natural Gas and
Crude Oil Production Incentive Act:**

**A. "average annual taxable value" means the
average of the taxable value per barrel, determined pursuant
to Section 7-31-5 NMSA 1978, of all oil produced in New Mexico**

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1 for the specified calendar year as determined by the
2 department;

3 B. "average daily production" means, for any crude
4 oil or natural gas property assigned a single production
5 number by the department, the number derived by dividing the
6 total volume of crude oil or natural gas production from the
7 property reported to the division during a calendar year by
8 the sum of the number of days each eligible well within the
9 property produced or injected during that calendar year;

10 C. "department" means the taxation and revenue
11 department;

12 D. "division" means the oil conservation division
13 of the energy, minerals and natural resources department;

14 E. "eligible well" means a crude oil or natural
15 gas well that produces or an injection well that injects and
16 is integral to production for any period of time during the
17 preceding calendar year;

18 F. "natural gas" means any combustible vapor
19 composed chiefly of hydrocarbons occurring naturally;

20 G. "operator" means the person responsible for the
21 actual physical operation of a natural gas or oil well;

22 H. "person" means any individual or other legal
23 entity, including any group or combination of individuals or
24 other legal entities acting as a unit;

25 I. "production restoration incentive tax

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1 exemption" means the tax exemption set forth in Subsection B
2 of Section 7-29-4 NMSA 1978 for natural gas or oil produced
3 from a production restoration project;

4 J. "production restoration project" means the use
5 of any process for returning to production a natural gas or
6 oil well that had thirty days or less of production in any
7 period of twenty-four consecutive months beginning on or after
8 January 1, 1993 as approved and certified by the division;

9 K. "severance" means the taking from the soil of
10 any product in any manner whatsoever;

11 L. "stripper well property" means a crude oil or
12 natural gas producing property that is assigned a single
13 production unit number by the department and:

14 (1) if a crude oil producing property,
15 produced an average daily production of less than ten barrels
16 of oil per eligible well per day for the preceding calendar
17 year;

18 (2) if a natural gas producing property,
19 produced an average daily production of less than sixty
20 thousand cubic feet of natural gas per eligible well per day
21 during the preceding calendar year; or

22 (3) if a property with wells that produce
23 both crude oil and natural gas, produced an average daily
24 production of less than ten barrels of oil per eligible well
25 per day for the preceding calendar year, as determined by

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1 converting the volume of natural gas produced by the well to
2 barrels of oil by using a ratio of six thousand cubic feet to
3 one barrel of oil;

4 M "stripper well incentive tax rates" means the
5 tax rates set forth in Paragraphs (6) through (9) of
6 Subsection A of Section 7-29-4 NMSA 1978 and in Paragraphs (4)
7 through (7) of Subsection A of Section 7-31-4 NMSA 1978 for
8 natural gas or oil produced from a well within a stripper well
9 property;

10 N. "well workover incentive tax rate" means the
11 tax rate set forth in Paragraphs (4) and (5) of Subsection A
12 of Section 7-29-4 NMSA 1978 on the natural gas or oil produced
13 from a well workover project; and

14 O. "well workover project" means:

15 (1) any procedure undertaken by the operator
16 of a natural gas or oil well that is intended to increase the
17 production from the well and that has been approved and
18 certified by the division; or

19 (2) the installation by the operator of a
20 natural gas or oil well of workover equipment that is intended
21 to substantially increase the life of the well and that has
22 been approved and certified by the division. "

23 Section 2. Section 7-29B-3 NMSA 1978 (being Laws 1995,
24 Chapter 15, Section 3, as amended by Laws 1999, Chapter 7,
25 Section 3 and also by Laws 1999, Chapter 256, Section 4) is

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1 amended to read:

2 "7-29B-3. APPROVAL OF PRODUCTION RESTORATION PROJECTS,
3 WELL WORKOVER PROJECTS AND STRIPPER WELL PROPERTIES. --

4 A. A natural gas or oil well shall be approved by
5 the division as a production restoration project if:

6 (1) the operator of the well makes
7 application to the division in accordance with the provisions
8 of the Natural Gas and Crude Oil Production Incentive Act and
9 rules adopted pursuant to that act for approval of a
10 production restoration project and the application is made
11 within twelve months of the completion of the production
12 restoration project; and

13 (2) the division records show that the well
14 had thirty days or less of production in any period of twenty-
15 four consecutive months beginning on or after January 1, 1993.

16 B. Except as provided in Subsection C of this
17 section, a natural gas or oil well shall be approved by the
18 division as a well workover project if:

19 (1) the operator of the well makes
20 application to the division in accordance with the provisions
21 of the Natural Gas and Crude Oil Production Incentive Act and
22 rules adopted pursuant to that act for approval of a well
23 workover project;

24 (2) the division determines that the
25 procedure performed by the operator of the well is a procedure

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1 to increase the production from the well, but is not routine
2 maintenance performed by a prudent operator to maintain the
3 well in operation. Such procedures may include, but are not
4 limited to:

5 (a) re-entry into the well to drill
6 deeper, to sidetrack to a different location or to recomplete
7 for production;

8 (b) recompletion by reperforation of a
9 zone from which natural gas or oil has been produced or by
10 perforation of a different zone;

11 (c) repair or replacement of faulty or
12 damaged casing or related downhole equipment;

13 (d) fracturing, acidizing or installing
14 compression equipment; or

15 (e) squeezing, cementing or installing
16 equipment necessary for removal of excessive water, brine or
17 condensate from the well bore in order to establish, continue
18 or increase production from the well; and

19 (3) the operator of the well submits to the
20 division evidence of a positive production increase over the
21 production rate of the well prior to the workover. The
22 operator must submit a production curve or tabulation made up
23 of at least twelve months' production prior to the workover
24 and at least three months' production following the workover
25 that reflects a positive production increase from the

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1 workover. The production curve or tabulation must be
2 certified by the operator as that of the well on which a
3 workover was performed.

4 C. In addition to the procedure for the approval
5 of wells pursuant to Subsection B of this section, a natural
6 gas or oil well shall be approved by the division as a well
7 workover project if:

8 (1) the operator makes application to the
9 division in accordance with the provisions of the Natural Gas
10 and Crude Oil Production Incentive Act and rules adopted
11 pursuant to that act for approval of a well workover project;
12 and

13 (2) the division determines that the operator
14 has installed equipment that, pursuant to Subsection D of this
15 section, has been certified and approved as well workover
16 equipment.

17 D. Upon the application of an operator or other
18 person, the division may certify equipment as "well workover
19 equipment" if the division determines that the installation of
20 the equipment:

21 (1) will substantially reduce operating
22 costs, thereby increasing the life of the well and the
23 recoverable reserves attributable to the well; and

24 (2) is not routine maintenance that would
25 normally be performed by a prudent operator to maintain the

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1 well in operation.

2 [E.] E. A natural gas or crude oil producing
3 property shall be approved and certified by the division as a
4 stripper well property if the division records show that the
5 property is assigned a single production unit number by the
6 department and:

7 (1) if a crude oil producing property,
8 produced an average daily production of less than ten barrels
9 of oil per eligible well per day for the preceding calendar
10 year;

11 (2) if a natural gas producing property,
12 produced an average daily production of less than sixty
13 thousand cubic feet of natural gas per eligible well per day
14 during the preceding calendar year; or

15 (3) if a property with wells that produce
16 both crude oil and natural gas, produced an average daily
17 production of less than ten barrels of oil per eligible well
18 per day for the preceding calendar year, as determined by
19 converting the volume of natural gas produced by the well to
20 barrels of oil by using a ratio of six thousand cubic feet to
21 one barrel of oil. "

22 Section 3. EFFECTIVE DATE. -- The effective date of the
23 provisions of this act is July 1, 2002.